SEPTEMBER 2023 MARKET REPORT

Economic commentary

We saw an interesting development in the UK economy in September. This year, we have written consistently about the difficult position that the UK's Bank of England (BoE) has been in; on one hand, it has needed to combat inflation by keeping interest rates high or raising them further, but on the other hand, it knows that high rates will hurt businesses and households looking to borrow money. In its September policy meeting, following 14 consecutive interest rate rises, the BoE finally decided to leave rates unchanged, at 5.25%. With UK inflation high but beginning to stabilise under 7%, and economic growth very weak but not yet in a recession, the BoE thought it a good time to pause the increase in rates.

This was welcome news for borrowers, with lenders beginning to cut rates in the days following this announcement. This is amidst a tricky environment that has recently seen residential property prices falling at the highest annual rate since 2009 (by 4.7% in the 12m to September, according to Halifax), and the amount of mortgage debt in arrears up around 30% over the last year.

Elsewhere, there is a growing expectation that interest rates will stay high but quickly stall or slow their pace of increase. In the US, inflation has been coming down steadily (but for an oil-driven spike in August) which has given the Federal Reserve the confidence to hold their rate this month. Rates have continued to rise in Europe but are widely expected to stabilise now.

Market commentary

As interest rates have risen this year, the prices of government bonds around the world (providing a now less-attractive fixed income to investors) has fallen as they have been widely sold. The rate available to investors willing to buy US government bonds with a 10-year maturity date is now higher than at any time since 2007; this now presents a strong buying opportunity for the asset class. While there had been something of a recovery for stocks in the first half of 2023, the last three months saw a reversal of those gains as both developed and emerging stock markets saw losses in local currency terms, largely on the back of investors expecting interest rates to remain higher for longer.

Despite this, the reaction to the UK interest rate news and subsequent sterling/dollar movements meant UK investors actually enjoyed modest gains. This is an example of why short-term market timing is difficult - there are so many interacting factors that are nearly impossible to correctly predict together. Instead, as usual, we are reminded to avoid the temptation to make overly complex short-term trades and carefully consider the long-term valuation credentials of any investment we make.

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	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	1.8%	1.9%	1.4%	4.6%	13.9%	11.9%	3.7%	5.6%
US	-1.2%	0.6%	6.3%	11.0%	10.7%	11.7%	10.5%	14.4%
Global	-0.7%	0.5%	4.4%	9.5%	11.5%	10.1%	8.6%	11.2%
Emerging Markets	1.0%	0.9%	-1.3%	-0.1%	1.4%	-0.5%	1.3%	4.5%
Europe ex UK	-1.3%	-2.0%	-1.6%	5.8%	19.6%	8.4%	6.3%	7.9%
Japan	1.8%	3.2%	5.6%	9.1%	14.5%	4.2%	2.6%	7.1%
China	0.1%	0.8%	-11.3%	-9.3%	-4.7%	-13.5%	-3.6%	4.0%
UK Smaller Companies	1.2%	2.6%	0.1%	1.8%	14.4%	2.7%	-1.7%	3.8%
Bonds (£)								
Sterling Corporate Bonds	0.2%	2.1%	-1.5%	0.6%	4.8%	-6.3%	-1.3%	1.6%
Global High Yield (Hedged)	-0.6%	0.7%	1.7%	4.8%	8.8%	1.0%	1.4%	2.7%
Global Bonds (Hedged)	-2.1%	-2.3%	-2.8%	-0.1%	0.5%	-5.4%	-0.9%	0.9%
Other (£)								
Global Listed Property	-2.5%	-2.0%	-4.3%	-6.6%	-7.1%	2.5%	0.1%	
UK Listed Property	-3.1%	0.7%	-6.1%	-7.2%	-3.3%	-2.8%	-4.5%	1.0%
Physical Gold	-0.8%	0.7%	-5.0%	0.5%	1.2%	1.0%	10.5%	6.1%

Economic Data	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.22	$1.27	$1.24		$1.12	$1.29	$1.30	$1.62
Bank of England Base Rate	5.25%	5.00%	4.25%		2.25%	0.10%	0.75%	0.50%
UK CPI YoY		8.0%	10.1%		10.1%	0.5%	2.4%	2.7%
US Unemployment Rate	3.8%	3.6%	3.5%		3.5%	7.9%	3.7%	7.2%
UK Unemployment Rate		4.3%	3.8%		3.7%	5.1%	4.1%	7.4%

Bond yields	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.4%	4.4%	3.4%		4.1%	0.2%	1.5%	2.7%
UK Corporate Bond Yield	6.3%	6.6%	5.7%		6.8%	1.8%	2.9%	4.0%

Data Sources: Data is at 29/09/2023. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.

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